

DEPARTMENT OF THE AIR FORCE
Headquarters US Air Force
Washington DC 20330-5000

~~RETURN TO SAFC~~
~~INFORMATION BOOK~~

AF REGULATION 170-8

15 January 1990

Comptroller

ACCOUNTING FOR OBLIGATIONS

This regulation establishes prerequisites for recording obligations. It applies to all Air Force Major Commands (MAJCOMs), the Air National Guard (ANG), US Air Force Reserve (USAFR), separate operating agencies (SOAs), installations, and activities to which funds are made available for obligation. It supersedes all conflicting instructions published by HQ USAF pertaining to prerequisites for recording obligations. This regulation implements DOD Manual 7220.9-M, chapters 24 and 25, DOD Manual 7290.3-M, chapter 3, and incorporates the fund control requirements of DOD Directive 7200.1.

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if received within the reporting period. Charges for a time period beginning in one FY or allotment period and ending in another FY or allotment period are charged against the appropriation or allotment current at the end of the time period covered by the services. Services received after the latest billing date may be excluded. Record obligations for utility services rendered under contractual arrangements according to section F.

Section F—Obligations—Other Contractual Services and Acquisition of Supplies, Materials, and Equipment

18. General. Obligations for contractual services and obligations resulting from acquisition of supplies, materials, and equipment are based on documents described in this section. Contractual services provided for in sections C, D, and E are excluded.

a. Contractual obligations are based on binding written agreements. The agreements must be in a form and for a purpose authorized by law. Types of documents most commonly used are contracts, purchase orders, unqualified notices of award, orders issued against indefinite quantity contracts, and basic ordering agreements.

b. The provisions of the documents and the nature of the transactions involved determine when obligations have been incurred and in what amount. Follow the general rules and principles pertaining to obligations of annual and multiple-year appropriations and the principles in this section.

c. Documents which serve only to reserve funds administratively for specific use are not obligations. Examples are acquisition directives, purchase requests, administrative commitment documents, blanket purchase agreements, and indefinite delivery-type contracts.

d. Contractual documents with provisions for cash discounts for payment within a specified time may be recorded in the gross or net amount, depending on local experience. Follow procedures in AFR 177-102, part one, chapter 2, to ensure payment within the discount period. When contracts are recorded in net amounts, increase net obligations to gross whenever the period available for taking the discount ends. Adjust obligations recorded against expiring appropriations from net to gross amounts at FY-end for discounts which will be lost before obligations are paid in the next FY.

e. Do not record as obligations contractual documents with specific provisions for a no-cost termination before performance until the government's right to terminate has expired. If annual funds are involved, charge to funds current when the government may no longer terminate without cost.

19. Contracts Between the Air Force and Contractors (Including Foreign and State Governments and Agencies). Record obligations for various types of contracts as follows:

a. **Firm Fixed-Price Contracts.** Record an obligation in the amount of the firm fixed price stated in the contract.

b. **Fixed-Price Contracts With Escalation, Price Redetermination, or Incentive Provisions.** Record an obligation in the amount stated in the contract or the target price. Record obligations for contracts with an incentive clause at the billing price. Record obligations for contracts having both a target and ceiling price in the amount of the target. Adjust the obligations recorded based on amendments to the contract.

c. **Cost-Reimbursement and Time and Materials Contracts.** Record obligations for the total estimated cost shown in cost, cost-sharing, cost-plus-fixed-fee (CPFF), cost-plus-incentive-fee (CPIF), cost-plus-award-fee (CPAF), time-and-material, and labor-hour contracts. Do not record obligations of more than the maximum current liability, including the fixed fee in CPFF contracts, the target fee in CPIF contracts, or the base fee in CPAF contracts. Adjust the obligations recorded based on amendments to the contracts.

d. **Indefinite-Delivery Contracts.** There are three types of indefinite-delivery contracts. The appropriate type is used when the exact times and or quantities of future deliveries are not known at the time of contract award.

(1) **Definite-Quantity Contracts.** When the contract provides for a definite quantity at specific prices with delivery or performance at designated locations based upon an order, record an obligation for the total amount at contract execution.

(2) **Requirements Contracts.** Under these contracts, the government agrees to order all supplies or services from specific contractors. This type of contract is used when the government anticipates recurring requirements but cannot predetermine the precise quantities

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needed. Except for blanket delivery orders issued against a requirements contract, each written order or call placed, not the contract itself, is recorded as an obligation upon issuance. Base obligations of blanket delivery orders issued against a requirements contract on receiving reports for supplies or written evidence of services scheduled for performance. For services, the written evidence may be a consolidated periodic listing of work orders issued to the contractor showing estimated dollar amounts.

(3) Indefinite-Quantity Contracts. These contracts provide for an indefinite quantity but do have a stated minimum (see FAR 16.504). Deliveries are scheduled by placing orders with the contractor. Record an obligation for the minimum quantity amount when the contract is awarded. Record additional obligations based upon written orders issued for quantities in excess of the minimum.

e. Basic Ordering Agreements. A basic ordering agreement is a written instrument of understanding between an agency and a contractor, it is not a contract. The basic ordering agreement should specify the point at which each order becomes a binding contract, for example, at issuance, acceptance, or failure to reject within a specified number of days. Record an obligation when the order becomes binding. If firm prices have not been established, record the amount shown on the order as the monetary limitation or maximum as an obligation and adjust after firm prices have been established.

f. Blanket Purchase Agreements (BPA). A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with sources of supply. Only authorized individuals are allowed to make purchases. All purchases made under a BPA are consolidated at least monthly and sent to the AFO. The AFO records all obligations in the month the purchases or calls are made. (Orders placed in one month which specify delivery in a subsequent month are obligations of the month in which delivery is made.)

g. Acceptance. Where the terms of a contract or agreement described in d. through f. above require the contractor to accept a definitive order, the obligation is created when the contractor accepts the order in writing, delivers the goods, or performs the services. Partial delivery or performance is evidence of acceptance to the extent of such delivery or performance. Delivery or performance must be made while the funds are available for obligation.

h. Letter Contracts and Letters of Intent.

(1) When the offer and acceptance are specific and definitive enough to show the purpose and scope of the final contract to be executed, a letter contract or a letter of intent and any amendments to them accepted in writing by the contractor are documentary evidence to support the recording of an obligation. The obligation must be recorded in the amount stated as the maximum liability under the letter or amendment (see FAR 16.603).

(2) The maximum liability may be a limitation on the amount of obligations that may be incurred pending execution of a definitive contract. In this case, the estimated amount of the definitive contract, over and above the obligation recorded under the letter of intent, must be carried as a commitment, pending execution of the definitive contract, unless the letter of intent provides that awarding of the definitive contract is dependent upon congressional appropriation action.

L. Contracts Authorizing Variations in Quantities To Be Delivered. Record obligations under these contracts for the value of the quantity specified for delivery, excluding variations. Adjust the obligations to the value of quantities delivered and accepted.

J. Items Acquired Under Provisioning Clauses and Contingency Items. These criteria apply to obligations for:

(1) Items Acquired Under Provisioning Clauses. Certain Air Force production contracts for systems and end items of equipment contain options which allow the Air Force to issue provisioning orders for items such as spares, repair parts, or aerospace ground equipment. Provisioning orders are issued against the contract on SF 30, Amendment of Solicitation/Modification of Contract. Estimated prices are shown for each line item shown on the SF 30. Record obligations based on these estimated prices when the SF 30 is issued to the contractor. Adjust the obligations when final prices are agreed upon. (Provisioned items for which firm prices have been established are procured by supplemental agreement or by separate contract.)

(2) Contingency Items. A contract may provide for additional performance on the part of the contractor. These provisions are called contingency items and usually cover engineering changes, facilities, maintenance, repairs, and parts. When such additional performance is required of a contractor, the obligation is shown by:

c. Record obligations which directly cite MAP or IMET funds using rules applicable to the particular obligating document.

d. Record obligations for reimbursable orders when accepted in writing by the performing activity.

e. Record obligations for accessorial charges based on MAP orders received. Use appropriate factors to determine amounts.

f. Record adjustments of prior-year obligations and previously unrecorded obligations against the funds current when the basic contractor order was awarded.

32. Foreign Military Sales (FMS). Obligate the FMS trust fund based on criteria of this regulation using the same rules that apply to Air Force appropriated funds. Direct-cite FMS trust fund obligation authority must be obtained before incurring obligations. FMS direct-cite payments cannot be made until expenditure authority is obtained from the Security Assistance Accounting Center at AFAPC. The Air Force manages the FMS administrative surcharge budget on an FY basis as an annual account. Record obligations against this account according to the policies in paragraph 7 for annual appropriations.

Section I—Adjustments of Obligations

33. Adjustments to Contracts. FAR part 52 provides change clauses in contracts or agreements authorizing certain amendments or modifications that may be made by the contracting officer. The appropriation initially charged when the contract was let is adjusted when the amendment or modification is "within the scope" of the original contract even though the appropriation may have expired. If the amendment or modification involves an "increase in scope," the change is considered a new obligation and is charged against funds currently available for obligation. It cannot be charged to an expired appropriation. If an increase in scope adjustment involves a multiple-year appropriation, more than one year's appropriation may be available for obligation. Obligate the FY appropriation in which the line item was approved; if no line item exists in accounts available for obligation, charge the most current multiple-year appropriation, subject to SAF/ACB issuance of a revised program. The contracting officer is primarily responsible for determining whether a change is within the

scope of the contract or is an increase in scope. In making such a determination, the contracting officer must be guided by appropriate provisions of the FAR, the DOD and AF FAR Supplements, legal principles applicable to scope changes, and the provisions of this directive. This determination does not relieve the AFO of responsibility to ensure that proper funds are charged. In cases where no clear cut determination can be made by the contracting officer, general counsel should provide guidance and determinations concerning the scope of the contract. Basic guidance is outlined below.

a. The baseline scope of a contract is all work contracted for prior to the expiration of funds. This includes changes incorporated by modification.

b. Increases in the quantity of the major items called for by a contract generally are not authorized under the changes clause. If a change increases the number of end items ordered on a contract, there is an increase in the scope of the contract. Changes in the quantity of subsidiary items under a contract, such as spare parts, generally are considered to be within the scope of a contract unless they are so significant that they alter the basic contractual undertaking.

c. Any modification of a service contract that increases deliverable services or reports is an increase in the scope of the contract. Examples follow:

(1) A modification that adds a requirement for on-site technical assistance and training to a contract that provides for accounting and auditing services would be an increase in scope. An increase in the number of people needed to complete the contract, or to their level of expertise, would be a within scope cost growth change.

(2) A contract modification to provide research and development for a new weapons system that is designed to meet a specified area of threats, and reach given levels of performance would normally be beyond the scope of the original contract. The changes clause, however, authorizes unilateral changes within the scope of the contract, in specifications, drawings, and designs. Therefore, a change in the specifications regarding levels of performance or threats does not result in an automatic change in scope. An increase in the number of people assigned to the project, or increased costs due to travel increases would be cost growth and be within the scope of the original contract.

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(3) A modification that increases the number of hours to be worked or the level of experience and training called for in a cost type level of effort contract generally would be considered an increase in scope of the original contract. An increase, however, in direct or indirect rates under the contract would be a within scope cost growth.

d. Claims arising out of an original undertaking would be funded from the appropriation on the original contract, and claims arising out of an increase in scope to the original contract would be funded from the appropriation available and charged for the increase in scope.

e. See AFR 170-21 for retroactive unit sales price adjustments between DMS, AFIF, and customers.

f. Adjust obligations payable in foreign currencies that are not designated currencies under a foreign currency fluctuation CMA account when there are significant changes in the foreign currency exchange rates which have a material effect on obligation amounts. To ensure that obligations are accurately recorded at FY-end, adjust obligations payable in foreign currencies to the exchange rate current at FY-end.

g. The amount of a recorded obligation must be adjusted to reflect an increase or decrease resulting from a determination made pursuant to the provisions of 50 U.S.C. 1431-1435 resulting in the correction of a mistake or the formalization of an informal agreement. These adjustments must be recorded against the same source of funds that originally was obligated when the amendments or modifications do not change the scope of the contract and thus do not result in a new procurement. When the scope of the contract is increased, the adjustment is chargeable properly to the appropriation or fund available at the time of the execution of the amendment.

h. When an increase occurs in the price of 1 or more items in a fixed-price contract containing an escalation clause, a price redetermination clause or an incentive provision, or in the fee in a cost-plus-award-fee or a cost-plus-incentive-fee contract, an obligation must be recorded in the amount of the increase at the time the changed price or fee is determined in accordance with the terms of the contract. The obligation must be recorded against the same source of funds that originally was obligated for the contract.

i. Within scope upward obligation adjustments against expired appropriations that ex-

ceed \$100,000 shall not be accomplished automatically. Such adjustments must be submitted to and approved by the Secretary of the Air Force or his delegates before restoration of unobligated availability may be recorded in the accounting records. The restoration process occurs at the end of each year. No "netting" of upward adjustments against downward adjustments are allowed to avoid this prior approval requirement. (See AFR 177-101, paragraphs 28-2b and 28-8, for additional guidance.)

34. Decreases—Cost-Type Contracts.

Decrease obligations on cost-type contracts when the amount obligated exceeds the amount the government will ultimately pay if there is no change in scope of the contract.

a. Normally, make such a decrease upon receipt of a formal amendment to the contract. The decrease may also be made by administrative notice when the administrative contracting officer (ACO) determines that an administrative notice should be used to speed the recoupment of funds. Where administrative notice is used, an authorized representative of the contractor must agree to the decrease. This may be done informally; for example, the contractor's representative may countersign a signed copy of the letter from the ACO to the contractor informing contractor of the proposal to decrease the amount of the obligation, and return that copy to the ACO. An oral agreement by the contractor's representative is not acceptable. The ACO determines the need for adjustments of obligated funds on contracts assigned. Based on recommendations of the ACO, the procuring contracting officer prepares and executes contractual documents to show deobligation or reobligation of funds for completion of the scope of work in the contract.

b. Later, if a reinstatement of funds is necessary, the obligation may be increased. Increase the obligation amount using the same informal procedure suggested in paragraph a. above. However, such increase must not exceed the amount of funds previously decreased by administrative notice and must be available to the procuring contracting officer for the purpose.

35. Decreases—Certain Fixed-Price Contracts.

Obligations evidenced by fixed-price contracts with escalation, price redetermination, or incentive provisions may be decreased per paragraph 34. In addition, a determination may be made by the contracting officer, and ap-

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